Towards a new paradigm of development: implications for the determinants of international business

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This article explores the implications of new thinking on the objectives and content of development for traditional explanations of foreign direct investment and the activities of transnational corporations. In particular, it argues that more scholarly attention should be given to the role of institutions in affecting the competitiveness of firms and the development strategies of countries.

Key words: development, foreign direct investment, institutions, international business, transnational corporations, governments.

Introduction

One of the largely unexpected consequences of the contemporary phase of globalization is that it is compelling academics, national governments and supranational entities to reappraise the nature and purposes of development and the ways in which the activities of transnational corporations (TNCs)[1] are both responding to and helping to shape it.

In this article, I shall first summarize the main ingredients of what I shall term the new paradigm of development (NPD), and how these differ, in substance or emphasis, from those that were generally accepted in the economics profession in the 1970s and 1980s. In doing so, I shall give particular attention to the

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[1] I use the threshold definition of TNCs to embrace all enterprises that engage in FDI and that own or control value-adding activity outside their national boundaries.

recent writings of three Nobel Laureates in Economics – Amartya Sen, Joseph Stiglitz and Douglass North – and set these in the context of the cultures, belief systems and actions of the stakeholders in the international economy in respect of 20/21 globalization.[2] I shall then offer my own interpretation of the NPD and, in doing so, I will focus on what, in my judgement, has been one of its most neglected – though important – components, viz. the content, structure and effectiveness of its institutions.

The final part of the article will examine some of the implications of the NPD for our theorizing about the determinants of TNC activity in developing countries. In particular, I shall introduce the concept of institutional assets into the received eclectic, or OLI,[3] paradigm of international production.[4]

The state of development thinking circa the 1970s

Table 1 summarizes the purposes, nature and determinants of development in the 1970s and early 1980s, as set out in the leading scholarly writings of the time, and in the attitudes, statements, policies, strategies and other actions taken by the leading participants in the development-enhancing process. As then expressed, they were broad generalizations; their precise form varied considerably according to country, sector or firm-specific factors.[5]

[2] So called to distinguish contemporary globalization from the previous great leap forward in the internationalization of world commerce viz in the 19th and early 20th century and in the late 1950s and 1960s (19/20 globalization)

[3] Ownership, location and internalization.

[4] As set out, for example, in Dunning (2000, 2002a).

[5] As evaluated, for example, by several authors in Meier and Stiglitz (2001). Gerald Meier, for example, in his chapter distinguishes between two generations of post-World War II development economists prior to the current phase. The first, typified by the work of Ragnar Nurkse (1952) and Robert Solow (1957), focused on capital accumulation as the central determinant of development. It was also macro-oriented and emphasized the role of governments in counteracting structural market failure. The second generation of economists were grounded in the principles of neo-classical economics and was more micro-oriented in its perspective. Their work tended to emphasise the adverse and/or unintended consequences of government intervention, and argued for a return to more market-oriented policies.

Table 1. The old development paradigm (Neo-classical model)

ECONOMICS

MEANS	ENDS
• NATURAL FACTOR ENDOWMENTS (R) (INCLUDING ENTREPRENEURSHIP) • LITTLE ATTENTION GIVEN TO CREATED ASSETS OR CAPABILITIES • LIMITED ROLE OF GOVERNMENTS AND INCENTIVE STRUCTURES. UTILITARIANISM AND PROFIT MAXIMIZATION ASSUMED TO MOTIVATE WEALTH CREATING ACTIVITY) • CULTURAL CONSIDERATIONS LARGELY IGNORED. DEVELOPING COUNTRIES ASSUMED TO BE BACKWARD VERSION OF DEVELOPED COUNTRIES • SOME ATTENTION PAID TO ASSET AUGMENTATION, INCLUDING POPULATION GROWTH, BUT VERY LITTLE TO PROCESS OF DEVELOPMENT	• MAINLY ECONOMIC (GNP PER CAPITA), OR GROWTH OF GNP PER CAPITA • LITTLE ATTENTION GIVEN TO 'PUBLIC' GOODS OR BADS • MEANS (E.G.WORKING CONDITIONS) NOT PART OF ENDS • LIMITED ATTENTION PAID TO ISSUES OF SOVEREIGNTY, OWNERSHIP, EQUITY, SOCIAL JUSTICE, HUMAN RIGHTS, THE ENVIRONMENT, SECURITY, ETC.

RELATING MEANS TO ENDS

- MONOCAUSAL & UNIDIMENSIONAL EXPLANATIONS
- STATIC (OR COMPARATIVE STATIC) SINGLE EQUILIBRIUM & LINEAR MODELS.
- MOST GOVERNMENT ACTIONS ASSUMED TO BE DISTORTING

MAIN STAKEHOLDERS/PLAYERS

- MARKET PARTICIPANTS
- SHAREHOLDER CAPITALISM
- LIMITED PARTICIPATORY ROLE OF EXTRA-MARKET ACTORS (E.G.CIVIL SOCIETY)

Source: Author.

The key propositions of the old paradigm of development (OPD) were based on the underlying premise that, as a group, the goals and characteristics of the developing countries were fundamentally similar to those of developed countries[6] except that the former were in an earlier stage of their development process! Furthermore, it was believed that the best way to advance the material living standards of the poorer countries – usually proxied by gross national product (GNP) per head – was for them to replicate the institutions and economic policies of the wealthier nations, which, it was assumed, had helped the latter to grow and prosper in the first place.

With some notable exceptions (such as those of the dependencia and Marxist schools of thought)[7] and unlike the pioneers of development economics (such as Gunnar Myrdal, Albert Hirschman, Raul Prebisch, Ragnar Nurkse and Paul Rosentein Rodan),[8] the ideas and scholarship of economists on development in the 1970s and early 1980s paid relatively little heed to social goals or to the output of goods and services that could not be readily supplied by the market. In the developed world, at least, most of the literature was an extension of the utilitarian neoclassical paradigm, in which the role of government was limited to facilitating market transactions and supplying goods and services markets could not, or would not, supply. Essentially, western economists interested in development sought to apply the toolkits of received trade, productivity and growth theory to explain why some developing countries grew and others did not (Reynolds, 1970). For the most part, little attention was given to the concept of human development[9] or to such public goods as the environment,

[6] Which differed according to, for example, their resource structures, size, degree of international economic involvement, political identity and cultural traditions.

[7] See, for example, Biersteker (1978), Sunkel (1972), South (1979) in respect of the dependencia school and the Marxist approach. See also several contributions in Moran (1986).

[8] See Hirschman (1958), Myrdal (1957), Nurkse (1953), Prebisch (1950) and Rosentein Rodan (1943). Each of these economists paid special attention to the role of institutions in promoting acceptable economic development.

[9] Later defined by Sen as the process of strengthening human capabilities and expanding human choices (Sen, 1999).

participation, safety, equity and sovereignty, identified, for example, by John Stuart Mill (1852) over two centuries ago and, more recently, by Amartya Sen (1999) and Joseph Stiglitz in their writings.[10]

Although critical – to a greater or lesser extent – of the neoclassical approach, the influential work of scholars such as W. Arthur Lewis (1965), Paul Streeten (1974), Bela Balassa (1981, 1989) and Hollis Chenery (1979), some of which are summarized in Sanjaya Lall (1993), essentially viewed the plight of developing countries as stemming from a deficiency of indigenous resources and capabilities to meet a mosaic of economic objectives. For example, in his careful appraisal of the role of foreign direct investment (FDI) in development, Streeten identified eight "gaps" that developing countries needed to fill if their policy goals were to be met.[11] However, neither he nor other scholars at the time paid much regard to the *process* by which the gaps might be reduced. The neoclassical approach was, by and large, a comparative static and frictionless one.[12] It also tended to be monocausal and unidimensional. In the main, it deployed single equilibrium models. The means and ends of development were treated largely independently of each other. Scant consideration was given to international public goods, such

[10] Notably in Sen (1999) and Stiglitz (1998).

[11] These included a *resource* gap (between desired investment and locally mobilized savings) a *foreign exchange* or *trade* gap between foreign exchange requirements and foreign exchange earnings plus official aid, a *budgetary* gap between target revenue and locally raised taxes, a *management and skill* gap between the supply of and demand for these capacities, a *technology* gap, an *entrepreneurship* gap, an (international) *marketing* gap, an *employment* gap and a *market structure* (improvement) gap.

[12] Hirschman and Balassa were exceptions. In particular, Hirschman viewed investment (both foreign and domestic) in time "t" as a pacemaker for further investment in time "t+1". He was almost one of the first economists to suggest that foreign investment was one of the main catalysts of "unbalanced" growth. Balassa's main contribution was to introduce the concept of dynamic comparative advantage in his analysis of the interface between trade policy and economic development. For a discussion of the relationships between Hirschman's work and that of Buckley and Casson's seminal volume (1976), see Agmon (2003).

as the environment, security and pollution. The role of civil society and supranational agencies was largely discounted, while the broader issues of human rights, ownership, and cultural identity were, for the most part, ignored.

Outside of (western-based) academia, however, a broader – and more people-related – perspective on development issues was emerging. Nowhere was this more demonstrated than in the United Nations in New York, where the whole issue of the sovereignty and participation of the developing countries in the emerging world economy was being actively aired and discussed.[13] In the 1970s, pronouncements such as the *Universal Declaration of Human Rights*, the *New International Economic Order* and *Permanent Sovereignty over National Resources*, together with the report of a Group of Eminent Persons on the *Role of Multinational Corporations on Economic Development and International Relations* (United Nations, 1974) became the template for identifying the major goals and tasks of development.[14] However, the case for a more holistic and integrated strategy towards development that also recognized the desire for sovereignty in economic decision taking by national governments was not shared, or shared to the same extent, by all developing countries. It was, for example, most vociferously voiced by Latin American countries and least by the emerging and rapidly growing East Asian economies.[15]

For the most part, these opinions and actions had little impact on mainstream scholarly thinking. Neither did they greatly influence the views of TNCs, which, at that time, (with

[13] For a full discussion of the role played by the United Nations and its agencies in fashioning thinking on development, see Jolly, Emmerij, Ghai and Lapeyre (2004).

[14] In addition, several UN agencies (e.g. UNCTAD, ILO, UNIDO) also took a broad perspective on development. By contrast, the World Bank, the IMF and the GATT took a more narrow economic efficiency enhancing approach.

[15] The former were most influenced by the “dependencia” group of scholars; the latter by a Western-based neoclassical approach, modified to include the role of the State as an enabling and participatory form of governance.

a few exceptions) thought that it was the responsibility of national governments to deal with the extra-economic issues of development, including those related to human rights, social justice and the environment. Moreover, the strategies of such enterprises were perceived to be very much driven by the need to meet their shareholders' interests, which, in the main, were of a profit-seeking, and/or capital appreciation kind. The voice of civil society – in the guise of special interest groups, including consumer and ethical shareholder activism – was generally muted and ineffective, except when directed to particular issues, like apartheid, natural disasters and the more blatant unacceptable practices of TNCs (e.g. the ITT affair in Chile and the Nestlé milk powder scandal).[16]

One reason for this was that the *awareness* factor and the *radius of concern* – especially among the stakeholders in developed countries – was, itself, not well developed. Neither international travel nor modes of communication approached today's levels or degrees of complexity. However, some established and well-meaning philanthropic organizations and religious organizations continued to emphasize the needs of the poorest inhabitants of developing countries, as indeed did labour groups in respect of the interests of third world workers.

In short, the contents of the OPD, which largely dominated mainstream scholarly thinking in the 1970s and early 1980s, tended to embrace a narrow somewhat ethnocentric, utilitarian linear and static economic approach. In particular, it paid relatively little attention to the extent and quality of institutional infrastructure and social capital, which is widely accepted today as one of the main determinants of the success by which developing countries can create and effectively deploy resources and capabilities, and gain access to markets, which are critical for their development.

[16] These and other early malpractices on the part of TNCs are described by Tagi Sagafi-nejad in his history of the interaction between the United Nations and TNCs (see Sagafi-nejad, 2007).

Globalization and technological advance: the opening for a new paradigm

In the two decades following the election of the Thatcher government in the United Kingdom and the Reagan administration in the United States, the global economic scenario and its implications for thinking on the purposes and characteristics of development has changed dramatically.

Most of the events of these years are well known and have been described at length elsewhere. Table 2 summarizes some of these as they affect the subject of this article. It can be seen that the main triggers to development rethinking were two-fold. The first was the post-1980 liberalization of markets and technological advances in cross-border transport and communication. Both events were – at least partly – the result of the changes in political and economic ideologies following the emergence of the Reagan and Thatcher governments and the fall of the Berlin Wall. Between them, they led to an enlargement of the economic opportunities of firms, a widening and deepening of social intercourse between people of different cultures, and a huge reduction in cross-border transaction costs. The second driving force comprised a series of dramatic advances in all forms of information, learning and knowledge relating to the wealth-creating process. Such information and knowledge are embedded in physical assets, human capabilities and entrepreneurship. They embrace all stages of any given value-chain and across value-chains. They incorporate both micro and macro organizational capital.

When these two forces are combined, it can be seen that they are refashioning the content and form of the production and exchange activities of firms. In particular, it is frequently necessary for firms to work together to create and exploit some kinds of innovations. In other cases, a firm producing end goods and services in one country may need to draw upon the resources, capabilities and markets of a firm in another country either to provide it with essential inputs or to help it market and distribute its product(s). To be effective, such horizontal and vertical coalitions require each of the participants to bring to the table tangible and intangible assets, and a spirit of cooperation over and above that needed in a hierarchical organization. In particular, research has shown that the virtues of trust, honesty, reciprocity and a respect for cultural and other traditions are particularly important requirements determining the success of strategic alliances and other forms of non-equity partnerships.[17]

Table 2. Some key features of 20/21 globlization

- MARKET LIBERALIZATION
  - (a) As affecting transition economies (and (some) developing economies).
  - (b) As affecting all economies.
- TECHNOLOGICAL ADVANCES
  - (a) Transport and communications (leading to increased speed, lower cost, improved quality).
  - (b) Other
- IDEOLOGICAL CHANGES (cf. pre-1980 period).
  - (a) Reconfiguration of (dominating) belief systems and mindsets of several societies.
  - (b) A more intensive focus on the human (cf. the physical) environment underpinning economic activity.
- RELATIVE GROWTH OF ALLIANCE CAPITALISM AND NETWORK RELATIONSHIPS
  - (a) Intra firm
  - (b) Inter-firm
  - (c) Inter-organization (e.g. between governments, NGOs and firms, etc.)
- LEARNING EXPERIENCES/TRAJECTORIES OF PAST
- EMERGENCE AND GROWTH OF NEW PLAYERS ON WORLD ECONOMIC STAGE (especially China and India).
- NEW IMPORTANCE ATTACHED TO THE INSTITUTIONAL STRUCTURE OF SOCIETIES AS A DETERMINANT OF ECONOMIC SUCCESS.

Source: Author.

[17] For examples, see various contributions in Contractor and Lorange (2002).

Perhaps the most significant consequence of globalization relates to its institutional imperatives, and particularly the ideas, motivation and conduct of its participants. My assertions here are two-fold. The first is that one of the unique features of contemporary capitalism is that, in a variety of ways, it links – it interconnects – different behavioural mores and belief systems, which, though prima facie are not easily reconcilable with each other, need to be respected if international commerce is to be conducted in a peaceful and productive way. Globalization has, in fact, widened and changed the physical landscape and human environment for doing business. The number of new players on the world economic stage – each with its own distinctive ideologies and values – is increasing all the time.[18] Technological advances have made economic and social life more volatile, complex and challenging. Television, travel and the Internet have increased the awareness and understanding of the peoples of the world about both the commonality and diversity of their values, needs and aspirations. They have facilitated the cross-border exchange of knowledge, ideas and information. Dwindling transport and communication costs have widened the radius of interpersonal transactions, and have facilitated new forms of inter- and intra-corporate cooperation. All these events are compelling a re-evaluation of the means and ends of development and are leading to a questioning of the means by which poverty and the other downsides associated with our contemporary global economy might be contained or resolved.

The second of my two assertions is that changes in incentive structures, and the belief systems underpinning them, rarely move in tandem with technical, economic or political change. Indeed, as Michael Novak (1982) has sagely observed, *each age of capitalism depends on a moral culture that nurtures the virtues and values on which its existence depends* (Novak, 1982, p.56). It is the implicit contention of this contribution that not only does 20/21 globalization require a new understanding of the purposes, nature and determinants of

[18] For example, the number of nations belonging to the United Nations at the end of 2003 was 215 compared with 90 thirty years ago.

development, but also that, if it is to be economically sustainable, democratically inclusive and socially acceptable, its institutions and institutional infrastructure need to be remodelled and upgraded. Many of the changes required are in the process of being put in place; others are still necessary. It is the implications of these for the determinants of TNC activity to which I shall give attention in the latter part of this article.

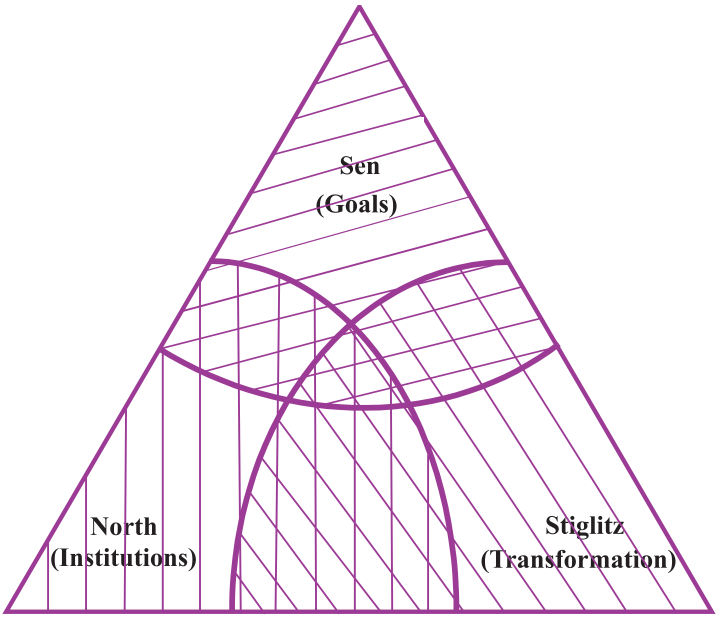
The NPD - views of the trio of Nobel Laureates

I now consider some of the ingredients of the NPD, seen primarily through the lens of the ideas and writings of three Nobel Laureates – Armartya Sen, Joseph Stiglitz and Douglas North.[19] Though, as figure 1 and table 3 show, each economist takes a somewhat different perspective of the development agenda, each is dissatisfied with the contents of the OPD, particularly those parts that reflect the principles of the Washington Consensus and/or take a more utilitarian and unidimensional approach to development. Each thinks of development as a holistic and multi-faceted, yet contextual, concept that embraces a variety of human needs and objectives. To a greater or lesser extent, each is concerned with the dynamics of structural societal transformation. Each emphasizes the importance of institutions, and each regards means and ends as being interwoven and part of the development process.

Looking at the specific contributions of the Laureates, that of Amartya Sen gives most attention to the ways and means of advancing real freedom for people. This, he suggests, is best accomplished by removing the main sources of "unfreedom", e.g. poverty, tyranny, poor economic opportunities, neglect of public facilities and the intolerance of repressive governments, and by the enhancing of the more positive freedoms of choice, opportunity and personal capability (Sen, 1999). In the

[19] Of course, several other economists, e.g. Balasubramanyam, Salisu and Sapsford (1999), Emmerij (1997), Gray (2002), Jenkins (1989), Lall (1993), Buckley and Casson (1991) and Rodrik and Chang (2002) have made contributions to our thinking on the nature and content of economic development in recent years. See too Moran, Graham and Blomstrom (2005) for a recent review of the contribution of FDI to development.

Figure 1. The Sen/Stiglitz/North (Overlapping) Perspectives on the NPD



Source: Author.

pursuance of these goals, Sen also views substantive freedom as a means, as well as an end, of development. In identifying five types of freedom,[20] Sen pays special attention to the upgrading of institutions, which he regards as an essential prerequisite for people to value better and control their lives; to advance their true functional assets and responsibilities; and also to ensure a desirable balance between the tasks and the priorities of the different constituents of the wealth-creating and allocative process. Sen, of course, recognizes the huge difficulties in measuring or evaluating the kind of development he urges, but suggests a start should be made by incorporating better freedom

[20] Viz. political freedom, economic freedom, social freedom, transparency guarantees and protective security. Each may be viewed as a freedom from something undesired or a freedom to achieve certain objectives.

Table 3. The approach of the Nobel Laureates to development

SEN	STIGLITZ	NORTH
Freedom of choice	Structural transformation of societies	Increasing importance of institutions
Need for a more multi-faceted approach to content and governance of development	Holistic and dynamic approach	Dynamic approach to change
Wider concept of goals (over and above GNP per capita)	Emphasis on ownership and participation	Incentive structures and enforcement mechanisms
Development as widening choices and capabilities of stakeholders	Inclusivity and consensus building	Values, perceptions of reality, and belief systems
Different aspects of freedom	Partnerships	Emphasizes human (cf. physical) environment
Public goods/social values	Social capital	Focuses on reducing/ counteracting uncertainty.
Culture/human rights	Accumulated learning and experience	Extension of transaction costs to evaluating institutions.
Institutions matter	The responsibilities of freedom	"Top-down" and "bottom-up" institutions.

Source: Author.

and capability related indices into any measure of human well-being.[21]

[21] Such as, for example, the extent and rate of poverty reduction, reduction in abuses of human rights, mortality reduction, health care and longevity, promotion of democracy, protection of the environment, reduction in corporate and government malfeasance, advances in security, safety standards and reduction of poverty. It should be acknowledged that some indices, e.g. *the UN Human Poverty Index*, the *Heritage Index of Freedom* and a *Quintile* Index (which looks at the per capita income and growth of income of the poorest 20% of population in any particular country (Basu, 2001; Yusuf and Stiglitz, 2001) have already made some progress in this direction.

For Joseph Stiglitz, development is primarily concerned with the economic and structural transformation of resources, capabilities and preferences of societies, and that of the mindsets, values and entrepreneurship of its individual and organizational stakeholders. Stiglitz's main criticisms of the OPD – as set out, for example, in Stiglitz (1998) and Yusuf and Stiglitz (2001) – are that it is too narrowly focused; it is incapable of coping with the needs of an uncertain innovating global economy; it tends to be adversarial in its approach; it ignores issues of ownership, sovereignty and participation; it underestimates the role of non-market actors in helping to reduce or counteract the coordinating failures of markets, and to provide collective goods or those that generate externalities or spillovers; it pays little or no heed to the institutional infrastructure, the quality of which (he asserts) is one of the critical determinants to the direction, structure and speed of the transformation process; and it fails to acknowledge the inseparability among the multiple goals of development and, in particular, the interface between efficiency, distribution and cultural identity.

Stiglitz believes that the NPD should be more holistic, more consensual, more socially inclusive, more open, and more participatory in its content than its predecessor. It should better recognize and appreciate the role of partnerships, networks and social capital as contributors to these goals. It should place the learning process, and the willingness and capabilities of individuals and organizations to adjust to economic and social regeneration, centre stage. It should pay more regard to the role of civil society and special interest groups as development enhancing entities. It should be more dynamic in its perspective and accept that the development process involves a continuum of equilibrium situations. It should include a wholesale reappraisal of the objectives and functions of the leading supranational organizations, especially the United Nations, the World Bank, the International Monetary Fund and the World Trade Organization.[22]

Of the three Nobel Laureates, Douglass North is the one who pays the most attention to the role of incentive structure and enforcement systems in affecting the trajectory, structure

[22] As spelled out in more detail in Stiglitz (2002).

and impact of economic development. Such institutions – as he identified in several of his publications[23] – have been all too frequently ignored or discounted in the neo-classical literature. But North, like Sen and Stiglitz, believes the contemporary characteristics of the global economy and the re-evaluation of views by both individuals and organizations about the purpose, content of development, and its determinants are compelling scholars, the business community, civil society and governments to examine more carefully the institutions and institutional infrastructure undergirding economic activity.[24]

Much of North's work in recent years has been to spell out and analyse the ingredients of the incentive systems of different societies and of their constituent stakeholders. More specifically, he defines institutions as the rules of the game that govern the way in which human beings structure their (commercial) interactions. They consist of, first, formal rules, such as constitutions, laws and regulations, which are normally put in place and enforced by political entities, e.g. governments or supranational agencies; second, informal rules, such as ethical norms, conventions, covenants and voluntary codes of conduct that govern much of human behaviour, which may be either imposed on a lower level of governance by a higher level of governance, or spontaneously initiated; and third, enforcement mechanisms, which are made up of (a) voluntary or self-enforced codes of behaviour, (b) the ability of those (adversely) affected to retaliate, and (c) penalties or sanctions (sticks) or tax and other incentives (carrots) imposed by governments (North 1990, 1994, 1999, 2005).

According to North, as a society develops and economies become more complex and specialized, the transaction costs of economic activity rise. By contrast, production costs tend to fall. Globalization and its two main drivers – technological advance and market liberalization – are having a mixed effect on transaction costs. On the one hand, for example, the advent

[23] Notably, North (1990, 1994, 1999, 2005).

[24] Which I simply define as the creation of wealth that involves the use of scarce resources. Under this definition, wealth can comprise any goods and services (including the reduction of "bads") that give satisfaction to those for whom they are intended.

of e-commerce is dramatically reducing the costs of some cross-border communications. On the other, the increased complexity and specialization of our contemporary knowledge-based, dynamic and volatile economy demands new and more flexible incentive structures and enforcement mechanisms to ensure that the transaction costs of the relevant market and non-market activities are kept to a minimum. North contends that such a realignment of institutions and the belief systems undergirding them is necessary at every level and stage of decision taking (from the individual to supranational entities and along value chains) if the development goals articulated by Sen and the transformation and local ownership of resources and capabilities as advocated by Stiglitz are to come to fruition.

There has been a good deal of empirical work to support North's view. Evaluating the determinants of economic growth and social development in 140 countries over the past century, Dani Rodrik, Arvind Subramanian and Francesco Trebbi (2002) conclude that the quality of a nation's institutions and social capital is one of the critical features distinguishing the faster from the slower growers. Furthermore, several recent empirical studies on the determinants of TNC locational strategies surveyed by the Economist Intelligence Unit (EIU, 2003) reveal that various individual measures of institutional development and social capabilities, e.g. market liberalization, reduction of crime, corruption and civil disturbances, entrepreneurship and educational upgrading, improved protection of intellectual property rights, reforms of the banking system, reliability of telecoms networks, less bureaucracy and more active competitiveness enhancing policies, are becoming increasingly critical variables.[25]

[25] For a particularly good recent study of the role of institutions in affecting the location of inbound FDI in Central and Eastern Europe, see Bevan, Estrin and Meyer (2004). For a detailed analysis of the function and content of different institutions see Chang, (2002), Rondinelli (2005). For a recent study of the role of institutions in upgrading the investment climate and human environment of countries see World Bank (2004). For an exhaustive study of the comparative effectiveness of governmental institutions of some 209 countries, see Kaufmann, Kraay and Mastruzzi (2005). For a more cautious view on the decisive role of institutions in determining economic growth see Glaeser, La Porta, Lopez-de-Silanes and Shlerfer (2004).

Before turning to my own interpretation of the NPD, I should make a brief mention of the changing attitudes and perspectives of some of the practitioners and constituents of the development process. These – and particularly those of corporations and national governments – have undoubtedly influenced, and been influenced, by academic scholarship. However, more than anything else, I would assert that governments, particularly those of developing countries, have been and are being activated by the combined effects of globalization itself and their own experiences with the workings of the OPD.

As far as individuals – and to a certain extent civil society as a whole – are concerned, it has been the cognitive factor of "how the other half lives", coupled with an increased appreciation of all aspects of freedom, the concern over the possible abrogation of (national) sovereignty, the imperatives of environmental protection, and a greater sense of social justice towards the "have-nots" that have prompted a reappraisal of their own and internal incentive structures, in pressurizing both corporations and governments to promote and work for a more socially responsible and inclusive form of development.[26]

Corporations, too, though still fairly focused on the traditional objectives of their value adding activities, are increasingly aware of their wider social responsibilities. The environment, an acceptable minimum standard of working conditions, more accountability and transparency (e.g. of their financial viability and employment practices), a growing recognition of the importance of honesty, trust, reciprocity and other forms of relationship capital for successful partnering, a judicious and responsible application of any monopoly power they may possess, and the absence of corporate malfeasance are all avenues that are requiring new and multi-stakeholder institutional structures. These may be either of a *top-down* regulatory or incentive nature (e.g. anti-corruption legislation, the Global Reporting Initiative of the United Nations) or of a

[26] For example, by the action they take in the market place, by ethical investment initiatives, and through the ballot box.

bottom-up voluntary nature (e.g. codes of conduct, actions on the part of civil society) to be a critical component of the NPD.[27]

No less have national governments and supranational entities changed their perceptions of development. In the 1980s and early 1990s, most governments of developing countries, backed by their counterparts in the OECD countries, placed upgrading national competitiveness at the top of their economic agenda. This was in marked contrast to the earlier decade in which the goals of the same administrations had been much influenced by such United Nations initiatives as the New International Order. More recently, there has been some reaction to the less welcome (and often unintended) consequences of liberalized markets (including free cross-border capital markets), and to the increasing integration of national economies into regional or global markets, including the role played by TNCs in this process. More specifically, in the 2000s, partly as a result of the publicity of unacceptable business practices, renewed attention is now being given to both *top-down* and *bottom-up* ways of ensuring that TNCs and their affiliates conduct their affairs in a way consistent with the goals and values of the NPD – as judged appropriate by the particular countries in question.[28]

Of the supranational agencies, perhaps, it is the World Bank that has, over the past decade or so, most obviously widened its agenda on extant approaches to development to incorporate those elements identified by the Nobel Laureates. Indeed, a study of the annual World Development Reports (WDRs) suggests there has been a regular interchange of views, opinions and recommended action between the Bank, its various consultants and academia in general.[29] To give just three

[27] For recent reviews of such top-down and bottom-up initiatives, see, for example, NGLS (2002) and Hooker and Ramsden (2004).

[28] I view the increasingly broad interpretation now being given, for example, by such UN agencies as the United Nations Research Centre on Social Development (UNRISD) to corporate social responsibility (CSR) as a renaissance of the earlier emphasis, placed by some developing countries, on performance requirements of foreign affiliates.

[29] For more details, see two excellent surveys of the themes and contents of the *WDR* between 1978 and 2000/1, by Mawdsley and Rigg (2002 and 2003).

examples: first, in the 2000s, much more attention is being given to the content and quality of the institutions and social capital in developing countries prior to the granting of any aid or loans; second, there is an increasing – though in some cases, a somewhat hesitant – recognition that local ownership of the ingredients of development, including technical and financial assistance provided by the Bank, is a better guarantee of a sensible usage than an insistence on conditions attached to such assistance; and third, the Bank is now acknowledging that non-market organizations – and in particular national governments and civil society – have important roles to play in determining and charting the course of development, and that the quality of their incentive structures and social capital is an essential part of this task.[30]

I do not have the space to review the perceptions of the other United Nations agencies. However, the International Labour Office, which in 2004 published a report on the social dimensions of the developmental impact of globalization, has undoubtedly been one of the foremost of these to adopt a broader perspective on the developmental impact of 20/21 globalization. Finally, at the United Nations itself, mention should be made of the initiative of the Secretary General in launching in 1999 a Global Compact between the United Nations, large corporations, national governments and parts of civil society. Such a compact is based upon three fundamental and widely agreed values, each of which has been agreed by the United Nations and its agencies, and each of which is further broken down into ten principles of corporate conduct, derived from international labour, environmental and human rights law.[31] There is also some suggestion that the United Nations is wishing to encourage a sharing of the responsibility for the protection and promotion of certain values and customs between public (e.g. national governments) and private organizations (e.g. TNCs).[32] In 2003,

[30] Indeed, the 2002 *WDR* addressed these and related issues head on (World Bank, 2002).

[31] For a review of the current state of the Global Compact, see United Nations (2003a). For a critical review of its provisions and impact on corporate social responsibility and development in general, see Richter (2003).

for example, the United Nations drafted a statement identifying – what it considered to be – the norms of responsibility of TNCs and other business enterprises in partnerships with national governments with regard to human rights (United Nations, 2003b). Such public-private partnerships, if properly organized, together with multi-stakeholder initiatives, may well be expected to play a more important role in addressing specific development tasks and goals and in upgrading the quality of the incentive structures in developing countries; particularly so as each affects the contributions made by foreign direct investors, often in partnership with indigenous firms.

Table 4 sets out a summary of the main contents of the NPD drawn from the sources already identified. In the next section of the paper, I present my own interpretation of the paradigm before proceeding to discuss the extent to which, and the ways in which, I believe it requires international business scholars to reappraise their thinking about the determinants of TNC activity in developing countries.

The Dunning model (or version) of the NPD

In Figure 2, I set out my taxonomy of the components of the NPD in the form of a number of sequential steps, or a kind of value-chain of inputs. I start off in stage 1 by identifying the objectives of development. As indicated already, these are likely to be multifaceted and context specific. In addition, they need to be viewed dynamically (viz. over time), and to embrace the (alternative) processes, policies and strategies by which development is achieved.

In stage 2, I identify the determinants of the extent to which these objectives are likely to be met. These will be dependent, first, on the resources (R), capabilities (C) and market opportunities (M) created, accessed or utilized by the main wealth creating organizations in society (See 2A). These may be internally or externally generated or sourced, and by a variety

[32] Such as the global framework agreements concluded between TNCs and international trade union organizations.

Table 4. A new development paradigm

	MEANS	ENDS
ECONOMICS	• RESOURCES (R) CAPABILITIES (C) (INCLUDING ENTREPRENEURSHIP AND MARKETS (M)) • INSTITUTIONS AND INSTITUTIONAL INFRASTRUCTURE (INCLUDING SOCIAL CAPITAL)	• DEVELOPMENT AS FREEDOM (AFFECTING NATURE OF OBJECTIVES SOUGHT) • TRANSFORMATION OF SOCIETY • HOLISTIC AND INTEGRATED APPROACH TO HUMAN DEVELOPMENT • ECONOMIC RESTRUCTURING AS A MEANS TO PROMOTE HUMAN DEVELOPMENT
SOCIOLOGY	VALUES/MIND SETS BELIEF SYSTEMS	• BEYOND GNP PER HEAD • SOCIAL INDICES • NEW DEVELOPMENT PRIORITIES
RELIGION: MORAL ECOLOGY	FACTORS INFLUENCING BELIEF SYSTEMS (E.G.TRADITION, RELIGION, KNOWLEDGE, PEER PRESSURE, LEARNING EXPERIENCE, ETC.)	❖ RELIEF OF POVERTY ❖ WOMEN'S RIGHTS ❖ HEALTH CARE ❖ QUALITY OF LIFE ❖ EDUCATION ❖ THE ENVIRONMENT ❖ SECURITY

RELATING MEANS TO ENDS

- A MULTICAUSAL, MULTIFACETED & HOLISTIC APPROACH
- COMPARATIVE STATIC & DYNAMIC MODELS: BUSINESS SURVEYS
- EXTRA-MARKET INSTITUTIONS & ORGANIZATIONS (CAN) PLAY A MAJOR ENABLING ROLE

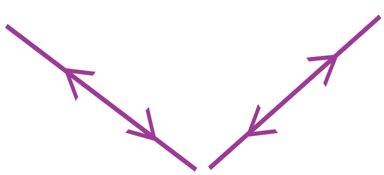
MAIN STAKEHOLDERS/PLAYERS

- MARKETS, GOVERNMENTS, CIVIL SOCIETY, SUPRANATIONAL ENTITIES.
- MORE PARTICIPATION AND LOCAL OWNERSHIP.

Source: Author.

Figure 2. The Dunning Model

STAGE 1. IDENTIFYING THE CONTENT OF THE NPD		
• STAGE 2		• STAGE 3
THE VALUE CHAIN OF THE DETERMINANTS OF 20/21 DEVELOPMENT (Moving backwards though each interacts with the other)		DETERMINANTS OF IBA AS INFLUENCED BY NPD
2(A) (R) + (C) + (M)		3(A) Ownership (0_a, 0_t, 0_i) Advantages of Firms
2(B) Institutions/Incentive Structures Enforcement Mechanisms		3 (B) Location Advantages (L)) (including (L_i) of Countries and Regions (both macro and micro)
2(C) Values/Mind sets		3(C) Internalization (I) (including I_i) Advantages of Linking 3A to 3B.
2(D) Belief Systems		
2(E) Origins of Belief Systems		
2 (F) Triggers to Change		



BOTH STAGES 2 AND 3 OF THE MODEL CAN BE CONSIDERED FROM A STATIC OR DYNAMIC (PROCESS) VIEWPOINT. FOR EXAMPLE, IN STAGE 2A CHANGE IN 2(B) IN TIME t MAY AFFECT 2A IN TIME t+1; WHILE IN STAGE 3 (B) A CHANGES IN L_i IN TIME t MAY AFFECT Oi IN TIME t+1, AND IN STAGE 3(C), A CHANGE IN Ii IN TIME t MIGHT AFFECT 0a IN TIME t+1. NB. Oi Li AND Ii are defined in the text.

Source: Author.

of organizational modalities. Such (R) and (C) may comprise natural assets (land and unskilled labour) and created assets, viz. management capabilities, information, knowledge, organizational skills, financial capital and entrepreneurship. Depending on the level and characteristics of consumer preferences, the market structure, (M), too, may veer towards the natural (e.g. as reflected in endogenous utility functions) or the created (via better information, subsidies, advertising, peer pressure, product innovation, and so on).

For the most part, the OPD – or at least the economists' contribution to our understanding about its determinants – stops at this point of the value chain although, when viewed from a policy perspective and over time, the incentive structures underpinning the behaviour of firms – particularly as they affect the creation of new (R) and (C) and/or (M) – are afforded some attention.[33] However, by contrast, the NPD gives these issues and their methods of implementation pride of place. As I have already indicated, this is mainly because 20/21 globalization shifts in economic ideology, recent advances in technology, and new scholarly insights into the determinants of growth have shown that however *necessary* the extent and quality of (R), (C) and (M) may be for the competitiveness of firms, and to the growth and structural transformations of countries, they may not be a *sufficient* condition. For this to be so, careful and explicit attention needs to be given to the quality, content and origin of institutions, and the instruments and mechanisms by which they are initiated and enforced.

In (2B), I incorporate institutions as a variable that both influences the extent, content and quality of (R), (C) and (M) and is influenced by them. In this article, I shall adapt the Northian interpretation of institutions as "incentive structures that determine the attitudes and behaviour of individuals and organizations owning or accessing (R), (C) and (M), and the ways in which the latter's creation and usage may best meet the

[33] Mostly in the form of regulatory and incentive instruments initiated by governments, including, for example, the legal framework and the conferring and protection of property rights.

objectives and content of development and process of achieving them".[34] From the viewpoint of the individuals and organizations housing and implementing them, they represent the myriad of "top-down" and "bottom-up" incentives and control mechanisms that determine their attitudes and behavioural patterns in the commercial domain. From a societal viewpoint, the totality of such institutions may be considered as the intangible component of its social capital (Fukuyama, 2000; Dasgupta and Serageldin, 2000).

As I have already indicated – and as shown in table 4 – institutions and their enforcement mechanism may take various forms.[35] Their effectiveness is likely to be strongly context specific. It will vary, *inter alia*, between countries, sectors, firms and types of TNC activity, according to the characteristics and performance of the international economy. In today's 20/21 globalization, their content and significance is also likely to be a particularly important determinant of the willingness and capability of firms, civil society and governments to respond to economic and social change and volatility, and to form constructive partnerships with each other.

[34] We accept of course that there are other interpretations of institutions. For a recent review of these, see Williamson (2000), Peng (2001), Scott (2001), Mudambi and Nararro (2002), Weiss (2003) and Maitland and Nicholas (2003).

[35] For a thoughtful analysis of the range and scope of contemporary institutions, see Rondinelli (2005). The author identifies seven kinds of institutions viz. those of economic adjustment and stabilization; those geared towards strengthening economic motivation; those related to private property protection; those promoting freedom of enterprise; those directed to rule setting and societal guidance; those fostering competition; and those promoting social equity and access to opportunity. For an analysis of the comparative advantage of institutions according to varieties of contemporary capitalism, see Amable (2003). For an identification and discussion of the institutions particularly conducive to economic development, see Voigt and Kiwit (1998). Drawing upon some earlier work of Herbert Giersch (1995), the authors focus on four types of morality, which (in Giersch's view) led to the rise of western civilization. These are a morality of property, a morality of contract, a morality of individualism and a morality of republicanism. How far these moralities are sufficient (or indeed appropriate) to foster economic and social development in the age of the 20/21 globalization is perhaps a question open to debate.

Institutions and institutional change may be demand or supply driven. Recent events suggest that each has interfaced with and reinforced the other. Institutions affecting changes in demand include measures to improve information flows, poverty alleviation, income distribution, advertising, monetary and fiscal policies, peer pressure, and the tastes, buying habits and expectations of consumers. Those influencing the supply of goods and services include laws and regulations, intellectual property rights protection, tax incentives, policies towards corporate social responsibility, the ethical and moral ethos of society (and that of its constituent stakeholders) market structures, cultural mores, and the stage and pace of development.

In the OPD, the performance of a country's institutions is primarily evaluated in terms of the efficiency with which markets operate – intermediate or final product, labour or goods or services markets – and the role of national governments in facilitating (or hindering) this process. In the NPD, institutions play a critical role in determining the ethos, attitudes and governance of the organizations responsible for resource and capability creation and utilization. These same organizations (and the individual decision takers within them) react to, and implement, change and the effectiveness of alternative models of governance (e.g. hierarchies of joint ventures and strategic alliances). In the NPD, the nature and feedback of the interface between *bottom-up* and *top-down* incentive structures – as they may influence, for example, the quality of entrepreneurship, human resource development, the extent and pattern of innovation, the ethical imperatives underpinning inter-firm alliances and multi-stakeholder initiatives, the system of property rights, and the content and effectiveness of corporate social responsibility – are themselves part of a society's institutional and social capital infrastructure.[36]

Another feature of the NPD is that it accepts there is no one-size-fits-all optimal development strategy. Inter alia, this

[36] As judged appropriate by the stakeholders of corporations and society to best meet their respective (development) goals.

characteristic has been underscored by the forces of globalization, technical change and the learning experiences of governments. In turn, it has led to an appreciation that not only do the objectives of development and their prioritization differ across countries (according, inter alia, to the inherited cultures and ideologies of their stakeholders), but also the nature and content of the institutions and social capital required to promote the best use of their (R), (C) and (M) may influence these cultures and ideologies.[37] Indeed, as has been pointed out elsewhere (Dunning, 2003), the success of responsible global capitalism rests on the willingness and ability of its constituents to create a set of institutions and institutional constraints that will, at one and the same time, balance the gains resulting from the integration of cross-border markets and production systems with those arising from decentralization of decision-taking relating to the access and use of (R), (C) and (M), which are specific to particular local communities.

However, should the interest and the contribution of economists and business scholars go further and ask what determines a society's incentive structures and enforcement mechanisms? North believes so and, in his latest book, he examines in some detail the content of different belief systems that he believes connects reality and internationality to institutional change (North, 2005). In this article, however, I will do no more than to offer three observations. First, the institutions of society and its decision-taking stakeholders are likely to be strongly culture specific. Second, the age of 20/21 globalization is bringing about a realignment of the content and prioritization of the core values underpinning behavioural mores. Inter alia, such a realignment reflects (a) a new set of consumer-based freedoms, capabilities and expectations arising from liberalized markets and technological advances and (b) a heightened sense of awareness by these same consumers of some

[37] Indeed, there are as many different values placed upon the kind of institutions underpinning the wealth creation process as a country's (R), (C) and (M) – however highly productive these may be – that give rise to the different roles played by the market, governments and civil society in that process (Hall and Soskice, 2001; Amable, 2003).

of the injustices and exclusivities of the cross-border wealth creating and distribution systems. Third, for the most part, the prioritization of the values just described differs considerably across national or regional cultures.

In a recently edited book (Dunning, 2003), a number of contributors explored some of the values and virtues that they believed must undergird socially responsible and democratically inclusive global capitalism. A few of these, they argued, needed to be universally held and practised by all those participating in the wealth-creating process. Thomas Donaldson and Thomas W. Dunfee (1999) refer to these as hypernorms, which they define as moral limits, determined by fundamental human rights, and accepted by all cultures and organizations. Others, however, were considered to be part of moral free space and specific to particular communities, cultures and belief systems. Some were perceived to be based on religious doctrine, long-held traditions and inherited family or community mores. Others reflected the spirit of the age: e.g. the desire by individuals for reputation and status, the role of advertising, moral suasion and peer pressure. To some extent or other, each has helped to fashion the institutions and institutional constraints underpinning contemporary economic activity and development trajectories. The content and character of each of these values, and the extent to which they are harmonized or their differences are respected in the pursuance of global commerce are, I believe, both one of the key components of the NPD, and one of the determinants of the success of future development strategies.

In the following section, I shall consider the impact of some of the specific attributes of the NPD on our theorizing about the (economic) determinants of international business (IB) activity. In doing so, I shall focus on the ways in which the explicit addition of institutions into the extant explanations of such activity may affect (and have affected) our thinking. However, I shall not stray further down the chain of determinants, i.e. beyond (2B) of development set out in diagram 2. This, indeed, is the subject for another article(s)!

The determinants of international business activity: revising and extending the OLI paradigm

In what ways, then, has the reconfiguration of the objectives of development, and the means by which these objectives might be achieved, affected our understanding of the determinants of the competitive or ownership (O) advantages of firms? How far has it caused a reappraisal of the attractions of alternative locations for accessing or adding value to these advantages (i.e. the L advantages of countries) and, to what extent has it required us to reconsider the mode of choice of firms in exploiting or adding to their O advantages, e.g. by internalizing the cross-border markets for them (I advantages) or by selling them or the rights to their use to other firms?

I shall suggest in the following paragraphs that such a reconfiguration is desirable. At the same time, I accept that the explicit incorporation of institutions into received theory poses a number of difficulties and challenges. Some are related to their intrinsic characteristics, compared with those of other (more tangible or easily measurable) advantages of firms and countries, and of organizational forms. Some have to do with the extent of their cross-border transferability, and some with the closer interface of their origin, form and implementation between firms and the economic and social environment(s) of which they are part. Some have to do with the dynamics of institutional change, compared with that of (R), (C) and (M), and some with the difficulty of separating the content and value of institutions from that of the (R), (C) and (M) with which they interface.

Following my previous writings, I will consider the role of institutions in international business activity by incorporating them into the eclectic or OLI paradigm, and I shall deal with each of these three elements of the paradigm in turn.[38] I will then take a more dynamic look at the paradigm to examine the institutional interface between firms and the location of their

[38] For an earlier and exploratory attempt to incorporate a cultural component into the paradigm, and some hypothesizing about how this might affect the ownership and internalization advantages of firms, and their response to the L characteristics of countries, see Dunning and Bansal (1997).

value-adding activities in developing countries, and the ways this interface influences and is influenced by the transformation process of those countries, as identified earlier by the NPD and our three Nobel Laureates.

Ownership specific (O) advantages

In addition to the O_a and O_t[39] specific advantages of a TNC, or potential TNC, identified by the eclectic paradigm, we might now add a third, institutionally related competitive advantages (O_i). Such advantages comprise the structure of incentives, which is specific to a particular firm, and which motivates and influences the extent to which, and the ways in which, (R), (C) and (M) are created, deployed or accessed. At any given moment of time, such an institutional matrix comprises a galaxy of both internally generated and externally imposed incentives, regulations and norms (and the response of the firm to them). Each of those may affect most areas of managerial decision-taking and the attitudes and behaviour of the firm's stakeholders, and also how each relates to those of other economic and political actors in the wealth-creating process.[40] Such an institutional matrix may be formal or informal (in the Northian sense) and backed up by a firm's own or external enforcement mechanisms.

By the specific incorporation of O_i into the eclectic paradigm – and particularly when considering it as part of the response of firms to the NPD – I acknowledge it to be an increasingly important attribute of the income generating assets of firms. As with the resource based theory of the firm, for O_i to yield a net competitive advantage (as compared with the O_i of rival firms), it must be scarce, unique, (to some extent at least)

[39] O_a refers to the advantages arising from the possession of or exclusive access to particular assets – e.g. the stock of (R), (C) and (M) – while O_t embraces the ability of the firm to coordinate efficiently these assets (or their usage) both at home and abroad, both within the firm, and with those of other firms.

[40] So-called "relational" capital of the firm as examined, for example, in Dunning and Narula (2004), Dunning (2002b), Dyer and Singh (1998) and Kale, Singh and Perlmutter (2002).

non-imitable and sustainable. At the same time, I also appreciate that it is the totality of the O specific advantages of a firm (i.e. its O_a, O_t and O_i) that define its willingness and ability to engage in new, or to increase its existing, foreign value-adding activities.

While I would accept that the ingredients of O_i – as, for example, recently documented by Rondinelli (2005) – have long been recognized, I believe that 20/21 globalization and related technological and organizational changes are compelling scholars to identify and evaluate more carefully their contribution to the value-adding process, both relative to the O_i of competitive firms, and to other forms of O specific assets. To what extent, for example, are the following institutional changes likely to impinge on the (C) and (M) of corporations?:

- the *Global Compact* of the United Nations:
- a spontaneous or enforced upgrading of corporate social responsibility;
- an extension of intellectual property rights;
- a revision of the patent laws;
- the impact of globalization on the institutional advantages of nation states;
- a new form of cooperative agreement to speed up the innovation process;
- more effective legislation to reduce corporate malfeasance and corrupt practices;
- more focused lobbying of governments and/or alliances with non-governmental organizations (NGOs) to enhance environmentally friendly growth and ethical consumerism.

Which particular forms of incentive structure are more likely to achieve any particular behavioural goal? These are questions – and many others like them – that I can only ask in this article, but I am suggesting that, to understand better the current determinants and effectiveness of TNC activity in developing countries within the framework of the NPD, they do deserve more serious attention.

The composition and strength of O_i advantages of firms is likely to be strongly contextual. In particular, it is likely to reflect the character of the macro-institutional infrastructure of the country or countries in which they operate. The extent and ways in which the internal incentive structures of TNCs of a particular nationality take on board these institutions and adapt them to their own particular requirements are likely to be important ingredients of the quality of the former's unique and sustainable resources and capabilities. For example, an ethnocentric approach to the institutional management of a TNC's foreign affiliates that are located in very different cultural or political regimes from that of their home countries is less likely to transfer or generate a different set of O_i advantages than that of a geocentric approach that externalizes that part of the distinctive incentive structures of a TNC's global portfolio most useful for organizing the (R), (C) and (M) in the particular regions and countries in which it operates.[41]

The institutional portfolio of TNCs is also likely to vary according to the kind of value activities carried out by them and their affiliates, and their *raison d'être*. Thus, the "rules of the game" and enforcement mechanisms to stimulate cost-effective innovatory activities – particularly where the latter are jointly undertaken with another firm – are likely to be very different from those underpinning the conduct of both home and foreign based personnel managers in their human resource strategies, or those of purchasing managers in setting standards for the employment practices and safety procedures of their subcontractor, or those of marketing managers in ensuring acceptable quality control procedures from their local distributors.

With respect to the motives for TNC activity, it seems likely that some kinds of strategic asset-seeking FDI are designed to gain access not only to foreign (R), (C) and (M), but also to firm or country specific institutions. Particularly,

[41] This idea extends the thoughts of Doz, Santos and Williamson (2001) in respect of the kind of O advantages derived by being a meta-multinational. For a recent discussion of some ways in which the transfer of O_i by foreign TNCs may help to remodel the L_i of host countries, in this case Japan, see Ozawa (2005, Chapter 9).

this is likely to be the case where the business and social culture in the host country is thought to be more competitiveness enhancing than that of the home country. Adaptations to the home based O_i assets of *market-seeking* TNCs – and particularly of those with the least experience of foreign markets[42] – may also need to take account of differences in consumer preferences and behaviour; while the incentive structures underpinning *efficiency-seeking* FDI – particularly in (and between) low labour cost developing countries – may require modifying because of the different expectations, requirements and belief systems of individual workers and/or labour unions. Lastly, the reconciliation of country-specific institutional differences is likely to play a less significant role in the case of natural resource- or capital-intensive TNCs that involve relatively few and fairly straightforward transactions than in that of knowledge-intensive TNCs that operate a complex global network of diversified activities.

Finally, what of the origin of O_i specific assets of firms?[43] In some cases, such assets (which, in principle, *could* be of negative value) might be imposed by home or host governments or by supranational entities. Examples include patent protection, banking regulations, transparency in laws relating to bribery and corruption, and safety procedures. Others may reflect the response of firms to the incentive structures offered or imposed by the industry of which they are part but, in my judgement, an increasing proportion of O_i is being internally generated by TNCs. Indeed, one might predict that the more – and the greater cultural diversity of – countries in which a firm produces, the more likely it is to accumulate and assimilate new O_is, particularly if it engages in a metanational strategy towards its foreign operations (Doz, Santos and Williamson, 2001) and, encourages subsidiarity in creative value-adding activities (Birkinshaw and Hood, 1998; Birkinshaw, Hood and Jonsson, 1998; Pearce, 1998, 1999).

[42] Notably some first time small and medium sized foreign investors.

[43] In other words, of firms of one nationality of ownership compared to those of another.

The L advantages of countries

An examination of the literature of the 1970s and 1980s on the attractiveness of particular locations[44] – be they countries or regions within countries – to both domestic and foreign corporations, reveals that most emphasis was placed on (a) the costs and quality of particular factor endowments (R) and (C); (b) the size, character and growth of domestic markets (M); and (c) the policies of host governments, e.g. taxes and fiscal incentives that might affect (a) and (b). Although, in part, (c) contained institutionally related variables, e.g. social capital, these were rarely spelled out or treated holistically.[45]

Since the advent of globalization – and particularly as a result of the transition of several Central and Eastern European and the Chinese economies from communism to market-based economic systems – much more attention has been paid to the quality of the country-specific incentive structures and enforcement mechanisms affecting inbound FDI. Table 5 presents a taxonomy I used in a chapter in a recent World Bank study (Dunning, 2004a), which is an adaptation of a chart that was originally published in the World Investment Report 1998 (UNCTAD, 1998).

The general proposition that this taxonomy throws up is that the more these institutional arrangements favour a particular location, the more TNCs will choose to create or add value to their global O specific advantages in that location. The implication of reclassifying and/or extending the variables to incorporate more explicitly a range of incentive structures and enforcement mechanisms is that the higher the quality and the transaction cost effectiveness of host country institutions, as they affect the (R), (C) and (M) of TNCs, the more the latter will have the ability and motivation to engage in FDI

[44] As summarized, for example, in Dunning (1993).

[45] An exception includes some of the reports of the United Nations Centre on Transnational Corporations (UNCTC). See, for example, UN (1978, 1983).

Table 5. Some host country determinants of FDI

<table>
<tr><th>Host country determinants</th><th>Type of FDI</th><th>Principal economic determinants in host countries</th></tr>
<tr><td rowspan="4">I. Policy framework for FDI
• Economic, political and social stability
• Rules regarding entry and operations
• Standards of treatment of foreign affiliates
• Policies on functioning and structure of markets (especially competition and M&A policies)
• Bilateral international agreements on FDI
• Privatization and price reform policies
• Trade policy (tariffs and NTBs) and stable exchange rates
• Taxation policy (including tax credits)
• Industrial/regional policies

II. Economic determinants

III. Business facilitation
• Encouragement of entrepreneurship
• Investment incentives and promotion schemes.
• Form and quality of legal property system
• Protection of intellectual property rights.
• Social amenities (bilingual schools, housing, quality of life, etc.)
• Pre- and post-investment services (e.g. one stop shopping)
• Good institutional infrastructure and support e.g. banking, legal, accountancy, services.
• Social capital
• Region-based cluster and network enhancement
• Legislation/policies designed to reduce Corruption, corporate malfeasance etc.</td><td>A. Market-seeking</td><td>• Market size and per capita income
• Market growth
• Access to regional and global markets
• Country specific consumer preferences
• Structure of markets
• Psychic/Institutional distance</td></tr>
<tr><td>B. Resource-seeking</td><td>• Land and building costs: rents and rates
• Cost and quality of raw materials, components, parts
• Low cost unskilled labour
• Availability, quality & cost of skilled labour</td></tr>
<tr><td>C. Efficiency-seeking</td><td>• Cost of resources and capabilities listed under B adjusted for productivity of labour inputs
• Other input costs, e.g. transport and communication costs to, from and within, host economy
• Membership of a regional integration agreement conducive to promoting a more cost-effective inter-country division of labour
• Quality of market enabling institutions/enforcement mechanisms.</td></tr>
<tr><td>D. Asset-seeking</td><td>• Quality of technological, managerial, relational and other created assets
• Physical infrastructure (ports, roads, power, telecommunications).
• Contents of macro-innovatory, entrepreneurial & competitive enhancing educational institutions.
• Mindsets, institutions and policies towards economic growth/development.</td></tr>
</table>

Source: Adapted from UNCTAD (1998) and Dunning (2004a).

Those determinants marked in bold print represent those which, in the authors' opinion (based on recent research), have become more important over the last decade or so.

Let me now consider the reconfiguration of L advantages demanded by the NPD. As shown above, this differs in a number of important ways from the OPD in respect of both the objectives of development and the content and means of achieving these objectives. Once these characteristics have been identified, the next task of national governments is to ensure that the institutions the societal and its constituent wealth creating entities[46] are best able to create, organize effectively and utilize the (R), (C) and (M) available to them. To take advantage of being part of a global economy, this also embraces the provision of the specific institutions necessary to supplement the (R), (C) and (M) of foreign investors, which, when jointly used with those of indigenous firms, might create a structure of value-adding activities consistent with the recipient country's long-term economic and social goals. For this to be possible, the recipient country must be prepared to offer the institutions and institutional support that tempt foreign firms to engage in that kind of production – and to do so in an effective and timely manner.

There is a wide continuum of location bound institutions (L_i). At the one end, foreign investors may be influenced by the investment promotion policies of host governments and by the content of international financial instruments (IFIs)[47] and bilateral investment agreements concluded by them. At the other, there are a host of policy options, regulations and incentives directed to influencing the entry, performance and exit conditions imposed on foreign investors (UNCTAD 1999, 2003c). The institutional profile of a country's organizations, particularly as it affects FDI, is strongly contextual. It has, for example, undergone quite significant shifts over the past four decades, as the evaluation of governments about the costs and benefits of FDI has fluctuated. However, I believe that 20/21 globalization and the NPD are demanding the most radical scrutiny of all of their incentive structures. This is because the increasing cross-border connectivity of economic transactions and the new

[46] Some of these are identified by Gray (2002) and by Rondinelli (2005).
[47] These include fiscal incentives and capital account controls.

emphasis being placed on the human goals of development are challenging the willingness and capacity of individuals and organizations, which previously had little to do with each other, to work together effectively.

At all levels of national (and subnational) economic and social life, established institutions influencing and cushioning behavioural patterns are being questioned. Sometimes, these relate to the business practices of firms; sometimes to the policies of governments or regional authorities; sometimes to the activism of NGOs and special interest groups, e.g. churches and philanthropic organizations; and sometimes to the perceptions and actions of supranational agencies. Part of the questioning relates to that of long-held and respected belief systems or traditions. Globalization is compelling a re-examination of the moral ecology of the stakeholders in different home and host economies, not least because its form and content is becoming an L advantage (or disadvantage) in its own right.

Like the O_i of firms, the L_i (and changes in L_i) are likely to be highly situational. In this present context, I would hypothesize that they would differ very considerably both between developed and developing countries and among developing countries. As an example of the latter, over most of the 1970s, 1980s and early 1990s, the incentive structures of most East Asian countries were much more conducive to promoting the creation and usage of their (R), (C) and (M) and to advancing their development goals than those of most Latin American and virtually all sub-Saharan African countries. Without a reconfiguration of the institutions and social capital of China, its impressive growth path over the past 15-20 years would not have been possible. The very recent upsurge of FDI in India is due less to an upgrading of its indigenous resources and capabilities as to a realignment of its policy instruments towards promoting a more open economy. The failure of some developing economies (e.g. Egypt, Peru, the Philippines) to devise a universally accessible property rights system (de Soto, 2000) has most certainly lessened their attractions to foreign investors. Institutional inadequacy, failures and mismanagement, both on the part of the stakeholders (including governments) of several East Asian economies and that of the leading organizations of the richer industrialized countries (including the World Bank and the IMF), explained much of the crisis in the former economies in the mid-1980s.

Finally, the balance between *top-down* and *bottom-up* incentive structures, and that between obligatory and voluntary enforcement mechanisms, is likely to be a strongly culture specific L variable. As I have already contended, without cultural sensitivity and understanding on the part of TNCs, these may well add to the "psychic" distance between home and host countries.[48]

There are many other country specific characteristics determining the content of L. These include the openness of an economy and the extent to which it is ready to assimilate the institutional practices of other economies (Singapore vs. Ghana); the extent to which it is multicultural and tolerant of different belief systems (Malaysia vs. the Islamic Republic of Iran); its stage of economic and social development, which may affect the quality of its supportive institutional infrastructure (Pakistan vs. the Republic of Korea); the institutional demands of its particular industrial structure (Saudi Arabia vs. Hong Kong, China); its size (Sri Lanka vs. Indonesia); its culture towards wealth creation and entrepreneurship (Taiwan Province of China vs. the People's Democratic Republic of Korea); the extent and seriousness of its social unrest or dysfunction (Colombia vs. Chile); and, perhaps most important of all, the extent of democracy and freedom of action allowed to the main wealth creators in society (the contemporary situation in Viet Nam and Cambodia vs. that of the 1980s, or Zimbabwe vs. Botswana in 2004).

[48] This could have interesting implications not only for the location of FDI, but also for the mode of foreign economic involvement for exports. The theory here, which dates back to the seminal contribution of Seev Hirsch (1976), is that if the costs of reconciling different incentive structures associated with the production of a particular product in a foreign country exceed those of exporting the same product from the home country, then exports will be the preferred route of servicing the foreign market.

If nothing else, these examples show both how important the L_i component is to a country's or region's unique competitive assets and comparative advantage[49] and how sophisticated and complex the composition and quality of its various components are; and how much, and why, institutional distance may vary between particular home and host countries.

In summary, the goals and contents of the NPD and the impact of 20/21 globalization suggest that L-based institutions and institutional infrastructure should be central to any study of the determinants of international business activity. If North (1990, 1994, 2005) is right in asserting that differences in the belief systems and incentive structures between countries are a critical explanation of their differential growth rates and development paths, and that these in turn are important determinants of FDI, it follows that the extent, content and quality of a country's institutions and their upgrading, as they affect each and every individual and organization involved in the wealth creating process, are likely to impact seriously on the quantity and form of inbound – and for that matter outbound – TNC activity. There is already much evidence that this has been so in the case of the economies in transition.[50] There is urgent need for similar empirical work to be undertaken on the changing location bound attractions of developing countries.[51]

[49] For a discussion of the concept of comparative institutional advantages, see Amable (2003). For a review of the institutional incentives offered at a regional or sub-national level, and particularly those to do with exploiting the benefits of clustering of related activities see Phelps and Alden (1999), Phelps (2000) and McCann, Arita and Gordon (2002). The last reference contains a particularly interesting example of the impact of institutional variables on the clustering of semiconductor plants by Toshiba and Texas Instruments.

[50] See particularly Bevan, Estrin and Meyer (2004), Holland, Sass, Benacek and Gronicki (2000) and Meyer (2002).

[51] The World Bank is in fact currently undertaking some major research into this very question. However, in this and other research, there is a real problem in operationalizing different incentive structures compared with the organizations or social capital housing such structures.

The I advantages of firms

Lastly, what of the implications of 20/21 globalization and the NPD for the modality by which TNCs acquire, gain access to or exploit their unique competitive advantages (and particularly their O_i assets) in foreign countries? What are the relative costs and benefits of internalizing (the market) for the creation or use of these assets, or the rights to their use? To what extent is it possible to license or otherwise contract out these functions?

In explaining the organizational choice of deployment of the O_a and O_t assets of a firm in a foreign location, scholars such as Peter Buckley, Mark Casson, Alan Rugman and Jean Francois Hennart have turned to transaction cost theory. In the case of O_a, the choice between adding value to a particular proprietary right (e.g. a patent) by way of a wholly-owned affiliate rather than, say, a non-equity licensing or franchising arrangement rests on balancing the benefits of hierarchical control, such as eliminating or inhibiting opportunism, moral hazard, a loss of reputation, and lack of quality control, with those of reduced (or no) capital investment (and the risk attached to this), coupled with the access to added knowledge that a cooperative arrangement might offer. In the case of O_t, almost by definition, there is no market for such assets apart from their use with O_a; therefore, they have to be internalized.[52]

What of the use made of O_i? I will illustrate by considering two scenarios. The first is where the corporate and societal institutions effecting the creation and use of (R), (C) and (M) in the investing and recipient countries is fundamentally the same (e.g. as between such liberal market economies as Canada and the United States). Then, only to the extent to which there are O_i advantages of the investing firm additional to those of the (possible partner) firms in the host country, would the question of the appropriate governance of the cross-border transfer of the assets (or their rights) arise. However, in so far as O_i

[52] These characteristics are explored in several of my previous writings. See, especially, Dunning (2002a, 2002b).

advantages have to be deployed with O_a or O_t specific advantages, then perforce they have to be under the governance of the same firm.

However, the particularly interesting feature of globalization and the NPD is that institutions are likely to differ significantly between investing and recipient countries. This applies no less to South/North and South/South FDI as to North/South FDI. This brings us to the second, viz. that of the relative merits of adapting existing incentive structures and trans-border organizational forms. At the one extreme (e.g. in some kinds of asset augmenting FDI), the incentive structures of the investing company or country may be totally inappropriate for it to impose on its foreign affiliate(s). Then the choice is either to modify its home-based (or global) incentive structures or to engage in some kind of partnership with a local firm so that the (other) O advantages transferred and combined with the (R), (C) and (M) of the partner firm may be effectively deployed. Such latter organizational forms are likely to be most prevalent between countries with very different business cultures and/or belief systems (e.g. the Islamic Republic of Iran and Germany) or between those at different stages of development (e.g. Australia and Sri Lanka).

At the same time, if the incentive structures of the investing firms reflect those that are likely to be eventually embraced by the host countries (as now seems to be happening in the case of United Kingdom and German FDI in the Baltic States and in Croatia and Slovenia), then the O_i advantages of a firm, at least in the initial stages of its FDI in an unfamiliar country, are more likely to be internalized.

However, as with any form of foreign involvement, much will depend on the host government's attitude and policies towards the non-resident ownership of its indigenous assets. On the one hand, the liberalization of markets in the 1990s and the increasing integration of many developing countries into the global economy (e.g. via efficiency-seeking FDI) are leading to a harmonization of intra-firm incentive structures. On the other hand, the increasing attention now being paid to all aspects of corporate social responsibility has encouraged some developing countries to renew their earlier attempts to ensure that the conduct and performance of foreign affiliates in their midst promotes their localized economic and social needs and objectives; to abide by their formal and informal institutional mores; and to respect their cultures, traditions and belief systems. The response of many TNCs is to prefer to conclude non-equity business relationships: e.g. the sub-contracting of the early stage manufacturing process in the electronics and textile industries and the transference of call centres from several developed to developing countries (UNCTAD, 2004).

As with O_i and L_i advantages, the character and significance of those concerned with the organizational mode of exploiting or augmenting the institutional assets of the investing company[53] are likely to be activity and/or function specific. In the case of those activities or functions involving culturally sensitive production processes or outputs, or of first time investors seeking to supply markets in unexplored territories, one might predict that institutionally related transaction costs of a firm might be lower if it concluded a partnership with a local producer, rather than pursue a "go it alone" mode of operation. However, global firms with (successful) affiliates in countries with similar incentive structures and those over which they have only a marginal impact on the creation and use of (R), (C) and (M) might well prefer 100% ownership of their foreign affiliates, provided that this was the most suitable vehicle for accessing or exploiting their other O specific assets.

Exogenous to their internal incentive structures, the last two decades has seen the modality of accessing or exploiting the O_i of TNCs being increasingly influenced by extra-market stakeholders, notably NGOs, local and national governments and supranational agencies. Among the variables favouring a cross-border joint venture or non-equity cooperative agreement are the extent of regulatory restrictions or other governmental restrictions on foreign ownership (Brouthers, 2002), and a

[53] Both from its home based and foreign based operations.

supporting infrastructure for inter-firm learning and clustering (Saxeman, 1994; Porter, 1996; Dunning and Wallace, 2000; Enright, 2000). The extent of corruption (Habib and Zurawicki, 2002) and the unethical conduct of indigenous organizations (Giersch, 1995, 1996) are also shown to have a negative impact on FDI. More generally, however, the trend towards alliance capitalism (Dunning, 1997) is fostering a more multi-faceted and partnership-based institutional upgrading, though some of the recent pronouncements and practices of both NGOs and some national governments would seem to belie this. At a supranational level, too, there are several serious, albeit halting and not always wise, attempts to encourage the various wealth creating organizations throughout the world – and those that influence the behaviour of these organizations by setting the rules of the game – to accept a series of common or universal institutions. Examples include the *Global Compact*, the *Global Reporting Initiative* and the *Norms of Responsibilities of Transnational Corporations and Other Business Enterprises* to which I have already referred. Others include the OECD *Guidelines* to *Multinational Enterprises* and a bevy of bilateral investment agreements.[54]

Each of these affects not only the level and pattern of TNC-related activity in developing countries, but also the modality of this activity. It does so by harmonizing and, for the most part, lowering the coordinating costs of the institutions underpinning value-adding activity throughout the world. Sometimes, along with advances in communication (e.g. the Internet), this makes for more FDI. In others, by reducing the transaction costs of market exchanges, it encourages TNCs to disinternalize their foreign-based activities, and engage in more contractual outsourcing and other non-equity operations.

The past decade – and particularly the late 1990s – has been a period of intense cross-border merger and acquisition activity. While this has primarily involved firms in the developed

[54] As, for example, documented in the annual *World Investment Report* of UNCTAD (especially, UNCTAD, 2003), various publications of the UNRISD (especially UNRISD, 2004) and Hooker and Madsen (2004).

Table 6. Incorporating institutional assets into the eclectic paradigm

INSTITUTIONS	0	L	I
	Corporate governance	**Social Capital**	**Organizational/relational**
FORMAL	• External legislation/regulations • Discipline of economic markets • Corporate goals, internal command systems and incentive structures	• Laws/regulations • Discipline of political markets • Rules-based incentives/standards • Cross-border investment agreements	• Contracts (e.g. inter-firm) • Contracts (e.g. intra-firm)
INFORMAL	• Codes/norms/conventions • Country/corporate cultures • Moral ecology/mindsets (particularly of decision takers) • Pressures from competitors and special interest groups	• Inherited social customs, traditions • Foreign organizations as institution reshapers • Motivating institutions (e.g. re innovation, entrepreneurship), competitiveness. • Attitudes toward change and uncertainty	• Covenants, codes, trust-based relations (both inter and intra firm). • Institution-building through networks/clusters of firms • Extent/form of institutional/cultural distance
ENFORCEMENT/EMPOWERMENT MECHANISMS			
FORMAL	• Sanctions/penalties (both external & internal to firms) • Stakeholder action (consumers, investors, labour unions, civil society)	• Sanctions, penalties, policies • Quality of public organizations (e.g. re protection of property rights; rule setting, legal system). • Collective learning (in shaping and implementing institutions)	• Penalties for breaking contracts • Strikes, lock-outs, high labour turnover • Education/training
INFORMAL	• Moral suasion • Loss, or gain, of status/recognition • Retaliatory options • Build up/decline of relational assets (e.g. trust, reciprocity, etc) • Blackballing	• Belief systems • Tradition (e.g. pride/shame) • Demonstrations, active participation in policy making organizations (*Bottom-up influence*) • Societal guidance/ moral suasion (*Top-down influence* on institutions, organizations and individuals) • Social safety nets	• No repeat transactions • Guilt, shame • External economies arising from networks/alliances, e.g. learning benefits • Blackballing
INSTITUTIONAL DYSFUNCTION	• Dishonest accounting practices, fraud and other corporate malfeasance • Lack of transparency • Inadequate institutional framework	• Crime, corruption, flaws in justice system, breakdown in communities/personal relations • Inability to cope with technological or institutional change	• Lack of good intra or inter-corporate relations. Failure of alliances, codes, lack of transparency/honesty etc.

Source: Adapted from UNCTAD (1998) and Dunning (2004a).

world, the share of cross-border purchases of corporations in developing countries rose from 9.1% in the period 1998-2000 to 13.7% in the period 2001-2003 (United Nations, 2004). I would suggest that part of the reason for this is not only to buy into the institutional assets of the acquired company, but also – and this is likely to be particularly the case where the buyer is contemplating expansion or restructuring the product or process portfolio of the acquired firm – to appreciate better the institutional capabilities of other organizations (including the government of the host country).

In short, I foresee no real difficulty in applying received internalization theory to explaining the mode of creating and using the O_i assets of a TNC or potential TNC in a particular host country. There is, however, a caveat to this endorsement. That is that internalization theory needs to be widened to include issues relating to the *process* of development and to embrace not just transactions involving the purchase or sale of products, but also the governance of all kinds of value-adding activities. For I believe that nowhere is the significance of incentive structures – or rather the *right* incentive structures – more important in influencing the behaviour of firms than in the creation and use of their (R), (C) and (M).

Conclusions

The readers of this article will quickly realize that I have put together a kaleidoscope of ideas and implicit propositions about both the NPD and how it affects the determinants of international business activity. Apart from the selective references and some casual empiricism, I have made no attempt to test some of the concepts and views put forward, nor indeed formulate formal hypotheses. That has not been my objective.

Rather, I have focused on what I consider to be a topic that though by no means ignored in the international business literature, has not, perhaps, been given the attention it warrants. I have argued that 20/21 globalization and the emerging approach to understanding the goals and challenges of development is compelling business scholars to give institutions a centre stage treatment. This also requires that both micro and macro incentive systems be integrated more explicitly into the mainstream paradigms and theories of international business activity. A hint of the way this can be done is contained in recent contributions by Dennis A. Rondinelli and Jack N. Behrman (2000), Ram Mudambi and Pietro Navarra (2002), Deepak Sethi, Stephen Guisinger, David L. Ford and Steven E. Phelan (2002), Elizabeth Maitland and Stephen Nicholas (2003), and Rondinelli (2005). My own thoughts are encapsulated in table 6.

In this article, I have outlined the kind of institutionally related variables that need to be incorporated into the eclectic paradigm of international production and to the more specific economic and business theories it embraces (Dunning, 2000), and also how these may affect the level and pattern of FDI and TNC activity. I have suggested, for example, that as a result of globalization and the NPD, the content and quality of institutions are becoming more important components of both the competitive advantages of firms and the locational attractions of countries. How much this is the case and what forms of incentive structure are likely to be the most conducive to upgrading the quantity and quality of the (R), (C) and (M) of firms and countries is, however, likely to be strongly contextual. For example, in some cases, the O_i advantages of firms of one nationality can be comfortably transferred to their affiliates in another country. In others, cross-country cultural and ideological differences may demand that TNCs should engage in foreign production only by means of a joint venture or on a contractual basis.

More generally, my reasoning suggests that the modality by which firms augment or create their O specific advantages outside their home countries is increasingly influenced by the extent to which they can tap into and/or integrate different institutional structures across the globe. In this respect, 20/21 globalization and the NPD add a new challenge to TNCs, governments and supranational entities. Its essence is to balance the advantages of cross-border product and process integration and the harmonization or coordination of country specific institutional mores, with those of retaining the “dignity of difference” between the economic, political and cultural composition of those same institutions, and the values and belief systems underpinning them.

In clarifying and suggesting responses to this challenge, I believe international business scholars have a unique and critical contribution to make.[55] Indeed, new and rich agenda of research topics are opening up. To what extent, for example, does the diversity of the institutional structures of countries[56] affect both their comparative dynamic advantages and the global competitiveness of their TNCs? Which of the galaxy of institutional advantages of firms are the most important in influencing the extent and pattern of their foreign operations? When does institutional upgrading lead to more FDI and when is it a consequence of FDI? What are the costs and benefits of reconfiguring the incentive structures of host countries to attract more inbound FDI?[57] How far does the optimal institutional matrix for firms and countries vary according to the kind of international business activity pursued by the former, and the stages of development of the latter? How can the extant theories of the TNC be broadened to encompass the determinants and process of institutional change? What is the role of different external or internal incentive structures and enforcement mechanisms on the performance of TNCs of different nationalities? These are just a few of the questions worthy of consideration by international business scholars over the next decade or so. ■

[55] A view echoed by Meyer (2004) and Ramamurti (2004) in one of the more recent issues of the *Journal of International Business Studies*.

[56] As, for example, identified and analysed by Amable (2003).

[57] Here the words of Hu-Joon Chang (2002) are very apposite. He writes “There is need….to explore exactly which institutions are necessary or beneficial for what types of countries, given their stages of development and specific economic, political, social and even cultural conditions. Particular care has to be taken not to demand an excessively rapid upgrading of institutions by developing countries…given that establishing and running new institutions is very costly.”

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